
COMMONWEALTH OF PENNSYLVANIA



A SPECIAL INVESTIGATION OF THE
MILLCREEK TOWNSHIP SCHOOL DISTRICT,
SCHOOL-BASED ACCESS PROGRAM

ERIE COUNTY, PENNSYLVANIA

MAY 2012

JACK WAGNER, AUDITOR GENERAL

PENNSYLVANIA DEPARTMENT OF THE AUDITOR GENERAL



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, Pennsylvania 17120-0018

JACK WAGNER
AUDITOR GENERAL

May 18, 2012

Michael Palermo, President
Board of School Directors
Millcreek Township School District
3740 West 26th Street
Erie, PA 16506

Dear President Palermo:

In June 2007, the Department of the Auditor General (“Department”) received a request from the Millcreek Township School District for an investigation into allegations of misuse of federal School-Based ACCESS Program funds. These allegations were investigated by this Department’s Office of Special Investigations (“OSI”). This report summarizes the results of that investigation.

The OSI investigation found that:

- The Millcreek Township School District’s former Supervisor of Special Services diverted \$91,873 from the District’s special education program by purchasing gift cards with special education funds and using the gift cards for non-program purposes.
- Millcreek Township School District is unable to account for \$341,140 of School-Based ACCESS Program funds that it received during the three-year period ending June 30, 2006.
- Two Millcreek Township School District employees removed approximately \$2,100 worth of gift cards from an unlocked file cabinet drawer in the Supervisor’s office without her knowledge.

We have furnished a draft copy of this report to the District’s Board of School Directors for its review and response. The District’s written response and the comments of the Department of the Auditor General on the District’s response appear at the end of this report.

We are also forwarding copies of this report to the United States Attorneys for the Middle and Western Districts of Pennsylvania, the Pennsylvania Office of Attorney General, the U.S. Department of Health and Human Services, the U.S. Department of Education, the Pennsylvania Department of Education, the Pennsylvania Department of Public Welfare, and the Pennsylvania Office of the Budget for their review and whatever further action they may deem appropriate.

These are serious findings involving taxpayer monies. The Department of the Auditor General will follow up at the appropriate time with both the District and the Pennsylvania Department of Education to determine whether all of our recommendations have been implemented.

This report is a public document and its distribution is not limited. Additional copies may be obtained through the Department's website, *www.auditorgen.state.pa.us*.

Sincerely,

/S/

JACK WAGNER
Auditor General

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EXECUTIVE SUMMARY

FINDINGS	RECOMMENDATIONS
<p><u>Finding 1:</u> The Millcreek Township School District's former Supervisor of Special Services diverted \$91,873 from the District's special education program by purchasing gift cards with special education funds and using the gift cards for non-program purposes.</p>	<p>We recommend the following:</p> <ul style="list-style-type: none">• The District should establish effective controls, policies, and safeguards to prevent such wasteful and abusive expenditures of special education funding, including a total prohibition of the use of District funds to purchase gift cards.• The District should transfer \$91,873 from its general fund to its special education fund to reimburse the special education program for the School-Based ACCESS Program ("SBAP") funds and other special education funds denied the special education population.
<p><u>Finding 2:</u> Millcreek Township School District is unable to account for \$341,140 of School-Based ACCESS Program funds it received during the three-year period ending June 30, 2006.</p>	<p>We recommend the following:</p> <ul style="list-style-type: none">• The School Board should ensure that the accounting systems set forth in PDE's Manual of Accounting are adopted and implemented, and that the business manager and business office personnel have the background and training to understand and follow said policies.• The District's independent auditor should perform testing to ensure that the District's accounting records for restricted funds are complete and accurate.

	<ul style="list-style-type: none">• PDE should require school districts receiving SBAP funds to submit a year-end report indicating how the money was actually spent, with a certification from the school district official with oversight responsibility that the information presented in the report is true and correct.
<p><u>Finding 3:</u> Two Millcreek Township School District employees removed approximately \$2,100 worth of gift cards from an unlocked file cabinet drawer in the Supervisor's office without her knowledge.</p>	<p>We repeat our earlier recommendation:</p> <ul style="list-style-type: none">• The District should prohibit the use of District funds to purchase gift cards and that the District should establish stronger and more effective controls, policies, and safeguards over the use of District funds to prevent such incidents from happening in the future.

BACKGROUND AND INTRODUCTION

The School-Based ACCESS Program (“SBAP”) is an avenue for school districts to receive federal Medicaid funding for medical and mental health-related special education services rendered by qualified staff to students enrolled in the Pennsylvania Medical Assistance Program.¹

The Pennsylvania Department of Education (“PDE”) has primary oversight responsibility for SBAP. PDE administers the program in conjunction with both the Pennsylvania Department of Public Welfare (“DPW”), the state agency responsible for administering the Medicaid program in Pennsylvania, and a private company that is under statewide contract to provide administrative support and to operate the SBAP program on a day-to-day basis (“Program Administrator”).

A claim for SBAP funding is processed generally as follows:

1. A participating school district sends a Medicaid claim to DPW through the Program Administrator for financial reimbursement of services provided by the school district to Medicaid eligible students.
2. If the claim is approved, DPW sends a percentage of the total dollar value of the approved claim to PDE, which holds the money (“SBAP funds”) in trust for the school district. DPW’s involvement with SBAP ends once the federal Medicaid dollars are transmitted to PDE.
3. To receive its SBAP funds, the school district must submit a request to PDE in narrative and budget form documenting how the school district intends to use the SBAP funds.
4. SBAP funds must be used within the school district’s special education program. However, SBAP funds may not be used to supplant professional positions that the school district has been supporting and may not be transferred to the school district’s general fund or used outside the special education program.
5. If PDE approves the request, the funds are sent to the school district.
6. The school district is not required to submit a year-end report to PDE documenting how the funds were used, because PDE does not monitor the use of the SBAP funds.

¹ Source: Pennsylvania Department of Education, *Pennsylvania School-Based ACCESS Program Provider Manual*, Revised: January 2005. The program is funded entirely by the federal government.

7. The school district also has the option of participating in a separate program to recoup its administrative costs relating to the SBAP program. In this program, DPW remits the funding directly to the school district, and the school district may use the funding to provide medical services to the entire student body.

In June 2007, the Department of the Auditor General (“Department”) received a request from the Millcreek Township School District (“District”) for an investigation into allegations of misuse of SBAP funds.² These allegations were investigated by this Department’s Office of Special Investigations (“OSI”), and this report summarizes the results of that investigation.

The OSI investigation³ found that:

- The Millcreek Township School District’s former Supervisor of Special Services diverted \$91,873 from the District’s special education program by purchasing gift cards with special education funds and using the gift cards for non-program purposes.
- Millcreek Township School District is unable to account for \$341,140 of School-Based ACCESS Program funds that it received during the three-year period ending June 30, 2006.
- Two Millcreek Township School District employees removed approximately \$2,100 worth of gift cards from an unlocked file cabinet drawer in the Supervisor’s office without her knowledge.

² At the same time, the District also requested an investigation into allegations made by the District’s former Supervisor of Special Services in a whistleblower lawsuit filed by her against the District’s Board of School Directors. At the time this request was received, the Department’s Bureau of School Audits was already in the process of conducting a routine cyclical performance audit of the District. However, the bureau was unable to conclude and report on that audit, covering the 2002-03 and 2003-04 school years, because of the ongoing investigation and litigation. As a result, the bureau will terminate that audit and commence a new audit covering the 2002-03 through 2009-10 school years. It is the bureau’s intention to review the allegations in the whistleblower lawsuit that are within the Department’s jurisdiction in that audit.

³ The results of this investigation have been presented to the appropriate state and federal law enforcement agencies for their review and whatever further action deemed appropriate.

FINDINGS AND RECOMMENDATIONS

Finding 1: The Millcreek Township School District's former Supervisor of Special Services diverted \$91,873 from the District's special education program by purchasing gift cards with special education funds and using the gift cards for non-program purposes.

When interviewed on February 24, 2009, the District's former Supervisor of Special Services ("Supervisor") provided the investigative team with the following information:

- Upon her instructions, the secretaries in her office ordered the gift cards⁴ when money was still available at the end of a budget cycle.
- The secretaries would contact the business office to determine if money was available, and to which account the purchase should be applied.
- The amount of funds available determined how many gift cards were purchased.
- In her view, it was better to spend the special education money rather than lose it or have it go into the general fund.

OSI examined the District's records for the period June 1, 2002 through June 8, 2007. During this five-year period, the only gift cards purchased with special education funds were purchased during the four-year period when the Supervisor oversaw the special education program. Over this four-year period, the Supervisor caused \$91,873 of various special education funds under her control to be used to purchase gift cards. Table 1 summarizes the gift card purchases by funding source.

⁴ Gift cards purchased with special education funds were redeemable at such locations as Panera Bread, Starbucks, Borders Bookstore, Walmart, Sam's Club, Media Play, Office Max, Cinemark Theatre, Family First Sports Center, Max & Erma's, Applebee's, Barnes & Noble, Bath & Body Works, Bruster's Ice Cream, Toys-R-Us, and Giant Eagle.

Table 1
Gift Cards Purchased With Special Education Funds,
June 1, 2002 through June 30, 2006

Special Education Funding Source:	Amount
SBAP	\$ 36,602
IDEA ⁵	28,278
Contingency ⁶	14,540
Other Special Education funds	<u>12,452</u>
Total Used to Purchase Gift Cards	<u>\$ 91,873</u>

When purchased, the gift cards were recorded in the accounting system as supplies. Rather than receiving tangible supplies, such as paper and pencils, the District received gift cards issued by a variety of business entities that could be used to purchase non-supply items or gain admission into certain venues. Converting special education funds into gift cards is essentially the same as obtaining cash with a restricted use.

In an email to District personnel, the Supervisor wrote that she used the gift cards for the following purposes:

- Employee recognition.
- Tokens of appreciation.
- Volunteer and trained peer mediators in each school.
- Various school programs such as student ambassadors,⁷ the SMART program,⁸ and Reading is Fun.
- Employees who worked after hours or on weekends.
- Employees who did an exceptional job attending to detail, who implemented a new initiative or program, or who volunteered.
- Special education students who routinely came to an after-school tutoring program. Students received one gift card for attending three study sessions per week.

⁵ The Individuals with Disabilities Education Act provides federal financial assistance to state and local educational agencies to guarantee special education and related services to students with disabilities.

⁶ The Special Education Contingency Fund provides additional state funding for the implementation of Individualized Education Programs for students with significant disabilities. 24 P.S. §25-2509.8.

⁷ Student ambassadors help eighth grade students assimilate into high school.

⁸ The SMART Program was a District-initiated program to give students and parents a tool to use to assure that students did not drink alcohol when going out with friends.

The Supervisor further stated the following:

- She never used the gift cards for her own personal use.
- She did keep some of the cards to purchase supplies and food for meetings.
- It was easier to use the gift cards to purchase food for impromptu meetings with the staff.
- The food was usually purchased at Wal-Mart or Sam's Club with the gift cards.
- She also recalled purchasing eight calculators at Wal-Mart for her staff with a gift card.
- In retrospect, "Giving the gift cards was probably not the smartest thing to do."
- She never thought purchasing the gift cards was wrong, because no one ever told her not to purchase the cards.

Conclusions and Recommendations:

Funds are critical to a special education program, as the particular needs of these students are much greater than those of average students. Used properly, the \$91,873 could have purchased supplies and services for the District's special education students. Instead, the Supervisor grossly abused her position by causing program funds to be used to purchase gift cards, disguising the expenditures on the books as purchases of "supplies," and then using the gift cards to make wasteful and unauthorized purchases, such as snacks for faculty meetings and rewards to employees for doing their jobs.

We recommend that the District should establish effective controls, policies, and safeguards to prevent such wasteful and abusive expenditures of special education funding, including a total prohibition of the use of District funds to purchase gift cards.

We further recommend that the District should transfer \$91,873 from its general fund to its special education fund to reimburse the special education program for the School-Based ACCESS Program ("SBAP") funds and other special education funds denied the special education population.

We are also forwarding copies of this report to the United States Attorneys for the Middle and Western Districts of Pennsylvania, the Pennsylvania Office of Attorney General, the U.S. Department of Health and Human Services, the U.S. Department of Education, the Pennsylvania Department of Education, the Pennsylvania Department of Public Welfare, and the Pennsylvania Office of the Budget for their review and whatever further action they may deem appropriate.

Finding 2: Millcreek Township School District is unable to account for \$341,140 of School-Based ACCESS Program funds it received during the three-year period ending June 30, 2006.

The accounting records provided to OSI by the District’s business manager showed that the District spent all \$1.3 million of SBAP funds it received during the three fiscal years ending June 30, 2006.⁹ However, as is shown in Table 2, the District could not account for \$341,140, or fully 25%, of the SBAP funds received over the three-year period.

Table 2
**Comparison of SBAP Funds Received and
 SBAP Funds Spent by
 Millcreek Township School District
 For Years 2003-04 through 2005-06**

Fiscal Year	SBAP Funds Received from PDE	SBAP Funds Accounted For	Difference	Difference as a Percentage
2003-04	\$ 331,261	\$ 224,826	\$ 106,434	32 %
2004-05	431,561	392,579	38,981	9 %
2005-06	<u>597,142</u>	<u>401,417</u>	<u>195,724</u>	32 %
Totals	<u>\$ 1,359,964</u>	<u>\$ 1,018,823</u>	<u>\$ 341,140</u>	25 %

PDE has issued a *Manual of Accounting* to ensure consistency in how all Pennsylvania school districts prepare their accounting records. The District’s Board of School Directors established District policies to (1) ensure uniformity throughout the District in accounting for revenues and expenditures, (2) prevent misuse of District assets, and (3) ensure that restricted funding is used appropriately.

When interviewed by OSI, the District’s former business manager stated that the poor accounting occurred because the prior business manager did not have an accounting background. He added that it has taken him years to correct past accounting errors and that he is still correcting accounting errors. He further stated that he was sure the money was used for the special education program, but that he did not have any records to support this statement.

Conclusions and Recommendations:

The District’s internal controls over special education funds were so lax that it was unable to account for fully 25% of the funding received over the three-year period

⁹ We did not extend our testing past June 30, 2006, because the financial information after that date was unaudited at the time of our testing.

ending June 20, 2006. It is vitally important for school districts to maintain complete and accurate financial records. Without such records, school districts incur the risk of having to refund money to funding sources and the risk of loss of future funding. We recommend that the School Board should ensure that the accounting systems set forth in PDE's *Manual of Accounting* are adopted and implemented, and that the business manager and business office personnel have the background and training to understand and follow said policies.

The District's failure and inability to properly account for restricted SBAP funds may be indicative of a systemic failure in how the District accounts for its other restricted funding, if not all of its revenues. We recommend that the District's independent auditor should perform testing to ensure that the District's accounting records for restricted funds are complete and accurate.

We further conclude that one significant reason why the District's failure and inability to account for SBAP funds went undetected is because PDE does not require school districts to submit reports indicating how the SBAP funds have actually been spent. PDE's lack of oversight also afforded the Supervisor the ability to obtain SBAP funds for the purported purpose of purchasing "supplies" and then spend the funds to purchase gift cards. Therefore, we recommend that PDE should require school districts receiving SBAP funds to submit a year-end report indicating how the money was actually spent, with a certification from the school district official with oversight responsibility that the information presented in the report is true and correct.

We are also forwarding copies of this report to the United States Attorneys for the Middle and Western Districts of Pennsylvania, the Pennsylvania Office of Attorney General, the U.S. Department of Health and Human Services, the U.S. Department of Education, the Pennsylvania Department of Education, the Pennsylvania Department of Public Welfare, and the Pennsylvania Office of the Budget for their review and whatever further action they may deem appropriate.

Finding 3: Two Millcreek Township School District employees removed approximately \$2,100 worth of gift cards from an unlocked file cabinet drawer in the Supervisor's office without her knowledge.

In the process of investigating how the gift cards were used, OSI was able to trace purchases made with gift cards to two District employees who worked for the Supervisor.¹⁰ When subsequently interviewed, these two individuals both admitted that they had removed gift cards from an unlocked file cabinet drawer in the Supervisor's office without her knowledge or authorization.

When questioned about this occurrence, the Supervisor stated that the gift cards were kept in the bottom drawer of a filing cabinet in her office. Her office was locked when she was not there. However, the filing cabinet was not always locked. Other District personnel stated that there was no record or tracking of how the gift cards were distributed.

Employee 1

Borders Group, Inc., the operator of Borders Bookstores, provided OSI with documentation that traced approximately 60 gift cards purchased with special education funds to the Borders Loyalty Card belonging to Employee 1 and her daughter.

When interviewed by OSI, this employee admitted that, on six or seven occasions, she took gift cards from an unlocked drawer in the Supervisor's office. She estimated the value of the cards at approximately \$1,000.

Employee 2

Walmart provided OSI with documentation the traced approximately \$1,100 in gift cards purchased with special education funds to Employee 2's personal bank account.

When interviewed by OSI, Employee 2 admitted that he took gift cards from an unlocked drawer in the Supervisor's office. However, he claimed he did it only a couple of times, and he took only four or five cards each time. He could not provide a dollar value of the gift cards.

Conclusions and Recommendations:

Due to the large number of gift cards purchased and the Supervisor's failure to adequately safeguard the gift cards, which are the functional equivalent of cash, two employees who worked for her removed gift cards from the Supervisor's office without

¹⁰ The names of the individuals have been provided to the District for whatever action it deems appropriate.

authorization and convert the gift cards to their own use. Furthermore, because no record was kept of the disposition of the gift cards, it is entirely possible that other individuals may have also removed gift cards from the Supervisor's office. We repeat our earlier recommendation that the District should prohibit the use of District funds to purchase gift cards and that the District should establish stronger and more effective controls, policies, and safeguards over the use of District funds to prevent such incidents from happening in the future.

**MILLCREEK TOWNSHIP SCHOOL DISTRICT'S RESPONSE TO
THE DRAFT REPORT**

The letter from Timothy M. Sennett, Solicitor for the Millcreek Township School District, has been scanned in its entirety on the following pages.



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April 4, 2012

Jeffrey H. Gribb, Director
Commonwealth of Pennsylvania
Department of Auditor General
Office of Special Investigations
327 Finance Building
Harrisburg, Pennsylvania 17120-0018

RE: Millcreek Township School District
School-Based Access Program

Dear Mr. Gribb:

The purpose of this letter is to provide you a response in regard to the special investigation of the Millcreek Township School District School-Based Access Program as solicitor authorized by the Board of School Directors of the Millcreek Township School District.

Finding No. 1: The Millcreek Township School District's former Supervisor of Special Services diverted \$91,873 from the District's special education program by purchasing gift cards with special education funds and using the gift cards for non-program purposes.

The Millcreek Township School District acknowledges and agrees with Finding No. 1. The former Supervisor of Special Education is no longer employed in the School District. The Millcreek Township School District does not approve the diversion of special education funds for the purchase of gift cards. The Millcreek Township School District prohibits such diversion. The Millcreek Township School District will transfer \$91,873 from its general fund to its special education fund to reimburse the special education program.

Finding No. 2: The Millcreek Township School District is unable to account for \$341,140 of School-Based Access Program funds it received during the three year period ending June 30, 2006.

The Millcreek Township School District is unable to admit or deny this finding at this time. There is ongoing litigation and investigation concerning the use of these funds. The Millcreek Township School District has changed its accounting practices and has subcontracted with the Intermediate Unit to review all Access Program fund usage and billing.

Jeffrey H. Gribb, Director
April 4, 2012
Page 2

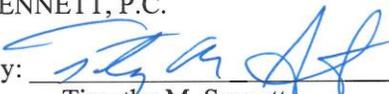
Finding No. 3: Two Millcreek Township School District employees removed approximately \$2,100 worth of gift cards from an unlocked file cabinet drawer in the Supervisor's office without her knowledge.

It is admitted that these employees removed \$2,100 worth of gift cards from an unlocked file cabinet drawer. Appropriate action was taken by the Millcreek Township School District. Appropriate accounting procedures have been put in place to address this type of behavior and prevent it for the future.

Overall The Millcreek Township School District has instituted appropriate accounting procedures to prevent abuse as indicated above.

Very truly yours,

KNOX McLAUGHLIN GORNALL &
SENNETT, P.C.

By: 
Timothy M. Sennett

TMS/smc

1014338.v1

cc: Michael T. Golde
Board Members

**DEPARTMENT OF THE AUDITOR GENERAL'S COMMENTS TO
THE MILLCREEK TOWNSHIP SCHOOL DISTRICT'S RESPONSE
TO THE DRAFT REPORT**

Upon review of the District's Response to the Draft Report, we have not deemed it necessary to make any material revisions to the content of the draft. Therefore, this Final Report is, in all material respects, identical to the Draft Report submitted to the District for its review and response.

The District concurs with Finding No. 1 and Finding No. 3 and has provided assurances that it has instituted appropriate accounting procedures to prevent such abuses in the future. The District also agrees with our recommendation in Finding No. 1 to reimburse the special education fund in the amount of \$91,873 from the District's general fund and to prohibit the use of special education funds for the purchase of gift cards. Even though the District's Response does not describe in detail the accounting procedures it has instituted, the fact that the District now prohibits the use of special education money for the purchase of gift cards altogether is indicative of an intention to eliminate the crux of the problem.

We are disappointed that the District has not concurred with Finding No. 2, but we understand its reluctance to do so at this time because of ongoing litigation and investigation of the use of the funding. However, we regard the District's assurance that it has changed its accounting practices and has subcontracted with the Intermediate Unit to review all ACCESS Program fund usage and billing as compliance with our recommendations and indicative of an intention to ensure that the problems described in the report do not recur in the future.

The Department of the Auditor General will follow up at the appropriate time to determine whether all of our recommendations have been implemented, and the adequacy of the specific accounting procedures and other measures instituted by the District to prevent the problems described in this report from recurring can be evaluated at that time.

Investigations have been ongoing by certain state and federal agencies with jurisdiction over the matters described in this report. We are providing copies of this report to those agencies, as well as others, for their review and whatever further action they deem appropriate.

DISTRIBUTION LIST

This report was distributed initially to the following:

The Honorable Tom Corbett
Governor

The Honorable Linda L. Kelly
Attorney General

The Honorable Robert M. McCord
State Treasurer

The Honorable Charles Zogby
Secretary of the Budget

The Honorable Ron Tomalis
Secretary of Education

The Honorable Gary Alexander
Secretary of Public Welfare

Anna Maria Kiehl
Chief Accounting Officer
Office of the Budget

The Honorable Jake Corman
Chair
Senate Appropriations Committee

The Honorable Vincent Hughes
Democratic Chair
Senate Appropriations Committee

The Honorable William F. Adolph, Jr.
Chair
House Appropriations Committee

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Millcreek Township School District

The Honorable Ronald Wilga
Board of School Directors
Millcreek Township School District

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, 613 North Street, Harrisburg, Pennsylvania 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditor.gen.state.pa.us